

### Celeste Australian Small Companies Fund

Monthly update 31 January 2016

#### Performance Statistics (Net of fees)

|                                 | 1 mth % | 1 yr % | 3 yrs %<br>p.a. | 5 yrs %<br>p.a. | 10 yrs %<br>p.a. |
|---------------------------------|---------|--------|-----------------|-----------------|------------------|
| Celeste Aust. Small Co. Fund    | -7.1    | +0.2   | -4.7            | -0.7            | +4.7             |
| Performance (relative to Index) | -2.0    | -3.4   | -3.3            | +2.4            | +4.2             |
| S&P/ASX Small Ords Acc Index    | -5.1    | +3.6   | -1.4            | -3.1            | +0.5             |
| S&P/ASX Small Inds Acc Index    | -5.2    | +8.7   | +7.7            | +7.3            | +3.1             |
| S&P/ASX Small Res Acc Index     | -4.6    | -21.7  | -30.3           | -27.8           | -8.2             |

Past performance is not necessarily indicative of future returns.

The Fund fell 7.1% in January, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index decreasing by 5.1%. Since inception (May 1998) the Fund's return is 13.1% pa, net of all fees, against the Index's 4.6% pa.

#### Portfolio Commentary

**Data #3 (DTL)** rose 11.8% in Jan. with no news from the company. Investors' confidence has improved on the back of anecdotal evidence of a continuing rebound in IT spending. DTL grew NPAT 40.9% FY15 and is well placed to grow earnings in FY16.

**Huon Aquaculture Group (HUO)** rose by 3.8% on the back of increasingly positive news around global prices for salmon. Huon have increased production in 2016 and will have a significant increase in the number of tonnes exported when they report their 1H16 result. Global prices have been very strong given supply issues in both Chile and Norway. While international prices are off the 30 year high seen in early January, they look likely to remain strong given that the volume available to be harvested over the next six months remains substantially below 2015. We anticipate that Huon will report a significant lift in profit in FY16.

**GUD Holdings (GUD)** declined 23.3% in the month after announcing a 1H16 result that disappointed due to losses in the Sunbeam and Dexion businesses. GUD's other businesses, Ryco Davey, Oates and the recently acquired BWI, met or beat expectations. GUD remains significantly undervalued on a sum-of-the-parts basis and we expect management will improve the performance of, or divest, the Sunbeam and Dexion businesses over the next 12-24 months.

**RCR Tomlinson (RCR)** fell 17.6% in January with no company specific news released during the month. Late in 2015 RCR did announce that it had won a \$54m maintenance contract with Origin Energy for services to the Eraring Power Station. It is anticipated that the current order book at RCR is some \$900m+, as at Dec. 2015, which compares with \$712m in Dec. 2014, and \$881m in June 2015. The RCR balance sheet is strong, management's track record in recent years is exceptional and the company remains well placed to grow revenues in the infrastructure sector, specifically in the rail, water & power sectors.

#### Portfolio Top 5 Holdings

| Stock              | % of Fund |
|--------------------|-----------|
| 1 REECE LIMITED    | 5.5       |
| 2 BREVILLE GROUP   | 4.8       |
| 3 STEADFAST GROUP  | 4.5       |
| 4 SUNLAND GROUP    | 4.3       |
| 5 MONASH IVF GROUP | 4.2       |

#### Global Index Performance (Accumulation)

|                                    | 1 month % | 1 year % | 3 years % pa |
|------------------------------------|-----------|----------|--------------|
| Australia – S&P/ASX All Ordinaries | -5.4      | -4.7     | +5.5         |
| USA – S&P 500                      | -5.1      | -2.7     | +9.0         |
| USA – NASDAQ Composite             | -7.9      | -0.5     | +13.7        |
| Europe – FTSE (UK)                 | -2.5      | -9.9     | -1.0         |
| Europe – DAX (Germany)             | -8.8      | -8.4     | +8.0         |
| Asia – Nikkei (Japan)              | -8.0      | -0.9     | +16.3        |
| Asia – Shanghai Composite (China)  | -22.6     | -14.7    | +4.7         |

#### Monthly Commentary

Equity investors had a challenging start to 2016 with stock markets around the world seeing sharp falls. International concern focused on weakening Chinese economic growth, a disappointing US reporting season and an oil price in freefall.

Risk aversion saw bond rates decline across the globe, and across the risk spectrum with the Australian 10yr Bond falling from 2.9% to 2.6%, the Italian 10yr Bond at 1.42% (an effective 70 year payback), whilst in Japan the 10yr bond moved to an all-time low of 0.11%. Late in the month negative interest rates were introduced by the Bank of Japan (BOJ). In an initiative to encourage Japanese banks to lend, to alleviate economic stagnation, commercial banks will now be charged 0.10% to leave some of their deposits with the BOJ. The BOJ negative interest rate move follows along from similar initiatives introduced in 2015 by the European Central Bank, and by central banks in Denmark, Sweden and Switzerland.

In January, crude oil prices fell below US\$30 per barrel, a price level last seen in 2004. Since mid-2014 the oil price has fallen over 70%, placing oil companies, big and small, and oil exporting nations under significant pressure. In January, BHP wrote-down the value of its US shale assets by >\$7b and Nigeria asked the World Bank for a \$3.5b emergency loan. Venezuela, who has the world's largest known oil reserves, announced a 60-day economic emergency where President Nicolas Maduro will govern the nation by decree for 2 months. In the first 9 months of 2015, Venezuela's economy shrank by 4.5%, and the annualised inflation rate is estimated to have reached some 140% by the end of 2015. It is likely that the oil price decline will have far reaching consequences across Central Asia, Russia, North Africa and the Middle East, and that this will be an ongoing source of investor concern in 2016. As the IMF noted in their 'World Economic Outlook' in Jan. "...further declines in commodity prices would worsen the outlook for already fragile commodity producers, and increasing yields on energy sector debt threaten a broader tightening of credit conditions..."

In China Q4 GDP grew at 6.8%, year on year, with 2015 growth of 6.9%, the weakest calendar year growth for some 25 years. Services and consumption accounted for 50.5% of GDP in 2015, up from 48.5% in 2014, highlighting the transition within the economy away from state-led investment and manufacturing to a more sustainable long term footing.

We anticipate that equity markets will remain volatile in the short term, and that further moderation in global growth expectations is likely in coming months. Growth will remain elusive in the FY16 interim reporting season, and we are sensitive to its pricing, where evident. We remain open to opportunities during reporting season, and will look to add to the portfolio in a process consistent manner, should risk and reward traits be appropriately compelling.

# CELESTE

Funds Management

## Fund at a Glance

### Fund Information

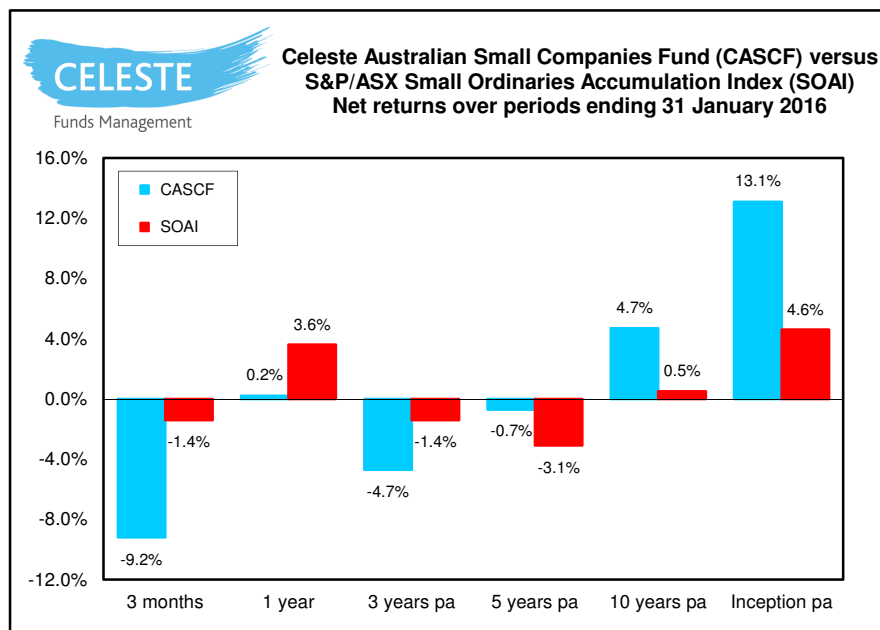
|  |   |
|--|---|
| <b>Primary Investments</b>                         | Shares in listed Australian smaller companies             |
| <b>Investment objective</b>                        | Small Ordinaries Acc Index + 5% p.a. over rolling 3 years |
| <b>Unit price (redemption) as at 31.01.2016</b>    | \$2.4983  |
| <b>Unit price (application) as at 31.01.2016</b>   | \$2.4833  |
| <b>Fund Size as at 31.01.2016</b>                  | \$72m   |
| <b>Minimum investment</b>                          | \$25,000  |
| <b>Minimum additional investment</b>               | \$1,000   |
| <b>Minimum balance</b>                             | \$15,000  |
| <b>Minimum investment: monthly investment plan</b> | \$500   |
| <b>Redemption will generally be available in</b>   | 7 days  |
| <b>Distributions</b>                               | 30 June and 31 December                                   |
| <b>Entry fee*</b>                                  | 0%  |
| <b>Exit fee*</b>                                   | 0%  |
| <b>Buy/Sell differential*</b>                      | 0.30%   |
| <b>Management fee*</b>                             | 0.95%   |
| <b>Performance fee**</b>                           | 20% of return above benchmark                             |
| <b>OGFM***</b>                                     | 0.95% p.a.  |

\* These fees and charges apply for the duration of the Product Disclosure Statement (PDS) and are inclusive of the Goods and Services Tax.

\*\* A fee charged on performance of the investments of the Fund above the nominated benchmark performance. The benchmark is the S&P/ASX Small Ordinaries Accumulation Index.

\*\*\* The Ongoing Fee Measure (OGFM) is the total amount of the ongoing Manager and Custodian Fees and aggregate Fund expenses in a Financial Year (but excluding the performance fee), divided by the average Net Asset Value of the Fund for the Financial Year expressed as a percentage. Transactional costs, such as bank charges, brokerage and stamp duties are not included in the ratio. The OGFM for the Fund will not exceed 0.95% p.a. for the duration of the PDS.

### Fund Returns



### Distribution History

| Total distribution year ended | Cents Per Unit | Annual Yield %* |
|-------------------------------|----------------|-----------------|
| June 06                       | 18.88          | 7.3             |
| June 07                       | 34.32          | 12.3            |
| June 08                       | 38.82          | 9.9             |
| June 09                       | 10.06          | 4.2             |
| June 10                       | 18.70          | 8.9             |
| June 11                       | 11.89          | 4.6             |
| June 12                       | 4.07           | 1.4             |
| June 13                       | 15.81          | 5.5             |
| June 14                       | 14.56          | 5.4             |
| June 15                       | 12.67          | 4.5             |

Past performance is not necessarily indicative of future returns

\* CPU / unit price at beginning of period

This report is intended to provide only general securities advice. Celeste Funds Management Limited does not purport to make any recommendation that any securities transaction is appropriate to your particular investment objectives, financial situation or particular needs. Prior to making any investment decision, you should assess, or seek advice from your adviser, on whether any relevant part of this report is appropriate to your individual circumstances. Celeste Funds Management Limited believes that the information contained in this report has been obtained from sources that are accurate, but it has not checked or verified that information. Except to the extent that liability cannot be excluded, Celeste Funds Management Limited accepts no liability for any losses or damage caused by any error in or omission from this report

### Celeste Funds Management Limited

Level 14, 15 Castlereagh Street, Sydney NSW 2000. GPO Box 4266, Sydney NSW 2001

T 02 9216 1800 F 02 9216 1899 E [contact@celestefunds.com.au](mailto:contact@celestefunds.com.au)

[www.celestefunds.com.au](http://www.celestefunds.com.au)

ABN 78 098 628 605